

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0345-02
Bill No.: Perfected SCS for SB 11
Subject: Taxation and Revenue - Income, Sales and Use; Counties, Cities, Towns and Villages; Education - Elementary and Secondary
Type: Original
Date: March 11, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$4,954,836 to Unknown	\$4,742,584 to Unknown	\$6,600,000 to Unknown
Total Estimated Net Effect on General Revenue Fund	\$4,954,836 to UNKNOWN	\$4,742,584 to UNKNOWN	\$6,600,000 to UNKNOWN

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
School District Trust	(\$474,247)	(\$583,315)	\$0
Conservation	(\$59,281)	(\$72,914)	\$0
Parks and Soil	(\$47,425)	(\$58,332)	\$0
Total Estimated Net Effect on Other State Funds	(\$580,953)	(\$714,561)	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0 to (\$711,370)	\$0 to (\$874,973)	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow for a sales tax “holiday” for a specified period for specified items.

BAP estimates the annual consumer spending in Missouri on clothing and shoes based on national estimates from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP staff assumes Missouri represents 1.8% of U.S. totals. BAP assumes the increase for years 2002-2005 is the approximate average of the change for 2000 and 2001. BAP staff estimates taxable sales for FY2004 to be \$6,104,000,000 and taxable sales for FY 2005 to be \$6,257,000,000.

BAP states, as was the case with similar proposals from last year, there is no information available that addresses what percent of these expenditures would qualify for the exemption or how effective this program would be in so far as motivating the public to shop for clothing during the tax “holiday”.

BAP has estimated the level of Missouri consumer spending on “Stationary/School” supplies for FY04 at \$182,000,000 and for FY05 at \$186,000,000. The estimate is based on national data

ASSUMPTION (continued)

from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri's share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 2000 and 2001.

Also, BAP has estimated the level of Missouri consumer spending on "Computer, software, et al" supplies for FY04 at \$638 million and for FY05 at \$654 million. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri's share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 2000 and 2001.

BAP defers to the Department of Revenue for the revenue estimate on the gambling winnings.

Officials of the **Department of Revenue (DOR)** states this legislation establishes a sales tax holiday for clothing, school supplies and personal computers in August.

DOR assumes they are responsible for tracking the subsequent impact associated with the local opt out provision. In order to track the lost revenue by locality the clothing, school supplies and personal computer sales will need to be separately stated on the sales tax return with a new location (clothing/school supplies/personal computers) on the return (similar to food). The sales tax report for August will affect all registrants (annual, quarterly and monthly). DOR assumes this will most likely result in some single and two location voucher filers to report on a long form for at least one month/quarter. DOR will need one Tax Processing Technician I for every additional 34,000 errors generated, one Clerk II in pre-edit for every 184,000 returns impacted and one Data Entry Operator I for every 170,000 returns impacted.

DOR will also need to send notification letters and a long sales tax form to approximately 100,000 sales tax accounts in August. DOR estimates the postage cost to notify the businesses will be approximately \$37,000.

DOR assumes the MITS system will need to be modified to recognize the new item tax. The figures reported on the new item tax will need to be calculated and broken down into tax types in order to reimburse the lost revenue to the political subdivisions. The changes to MITS will require modifications to several tables, and distribution programs and registration subsystem. The above modifications will require 2,768 hours of programming at a total cost of \$92,340. The State Data Center cost to implement the proposed legislation will be \$18,013. DOR did not provide an estimate of revenue loss associated with this proposal.

ASSUMPTION (continued)

DOR states that Section 143.181 (Gambling Winnings) - Requires all lottery and other gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source. This legislation will have no additional impact to DOR.

According to the gaming commission, there is \$110 million of nonresident casino winnings paid out in Missouri. Therefore, with a 6% tax rate, the increase in revenues totals \$6.6 million. DOR also assumes an UNKNOWN increase in revenues from nonresident lottery winnings.

Oversight has, for fiscal note purposes only, changed the starting salaries for the Tax Processing Tech I, Clerk II and Data Entry Operator I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, **Oversight** has reduced the amount requested for postage to reflect the bulk mailing rate.

Oversight assumes the mailing costs would be incurred in July before the August sales tax holiday. In addition, **Oversight** has included the programming costs and FTE requested since it is assumed DOR will be required to track the sales tax revenue lost.

Oversight, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by BAP and the actual impact similar legislation had on other states. The revenue estimate was based on 3/365 of the fiscal year taxable sales, resulting in a loss of \$2 million in state funds due to the sales tax holiday for FY04, and \$2.5 million in FY05. No adjustment was made for the \$100 cap, \$50 cap and \$2,000 cap. **Also, no adjustment was made for any incentive effect this portion of the proposal might have on spending habits. The actual loss to state funds from this sales tax holiday could be significantly higher than estimated.** **Oversight** assumes the Department of Revenue will enforce the provisions of the bill through post-audit in the field. If compliance is not monitored, the revenue impact could increase.

For a similar prior proposal, **Oversight** contacted three states that enacted similar legislation, the **State of Texas**, the **State of Florida** and the **State of New York**. Texas had a Sales Tax Holiday on clothing and footwear during a three day period in August, 1999. Florida had a nine day sales tax holiday period on clothing and footwear in August, 1998, and New York has had several such "holidays" in 1997, 1998 and 1999. **Oversight** assumes that similar impacts would occur in Missouri and have applied their taxable sales during the holidays to the Gross State Product in Chained (1992) Dollars, by industry from the U.S. Census Bureau, the Official

ASSUMPTION (continued)

Statistics, Statistical Abstract of the United States: 2000 to determine what Missouri's taxable sales in a similar period might be. The comparison reveals that by using the Office of Administration, Budget and Planning's estimated sales of clothing and footwear in Missouri for a given fiscal year, a reasonable estimate could be made to the actual impact a sales tax holiday would have. **Oversight** assumes that the same impact will occur whether the exemption applied to clothing or shoes under \$500 as it would for clothing under \$100. **Oversight** also assumes that the results could be applied over a three day exemption as it would for a nine day exemption, as it would for a thirty-one day exemption.

Officials from the **Missouri Lottery Commission (LOT)** assumed in a response to similar proposed legislation, that the LOT did not have a fiscal impact from the legislation. The LOT currently withholds Missouri state taxes from winnings over \$599 from out-of-state residents.

Officials of the **Missouri Gaming Commission (GAM)** assume this legislation would not fiscally impact their agency. However, GAM states that \$110 million is won by nonresidents each year according to the Federal Form W-2G. This form is required for all winnings over \$1,200. GAM does not anticipate any growth in the winnings.

Currently, GAM withholds from the winnings of Missouri residents both federal and state income tax, and only federal income tax from nonresidents.

This legislation will increase Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Income - General Revenue</u>			
Nonresident casino winnings	\$6,600,000	\$6,600,000	\$6,600,000
Nonresident lottery winnings	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
Total Income - GR	\$6,600,000 to Unknown	\$6,600,000 to Unknown	\$6,600,000 to Unknown

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
<u>Cost - Dept. of Revenue (DOR)</u>			
Personnel (3 FTE)	(\$46,033)	(\$56,620)	\$0
Fringe Benefits	(\$18,630)	(\$22,914)	\$0
Expense and Equipment	(\$20,608)	(\$1,137)	\$0
Programming	(\$110,353)	\$0	\$0
Postage	(\$26,800)	(\$26,800)	\$0
Total costs - DOR	(\$222,424)	(\$107,471)	\$0
<u>Loss to General Revenue Fund</u>			
Sales tax holiday	<u>(\$1,422,740)</u>	<u>(\$1,749,945)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$4,954,836 to Unknown</u>	<u>\$4,742,584 to Unknown</u>	<u>\$6,600,000 to Unknown</u>
OTHER STATE FUNDS			
<u>Loss to School District Trust Fund</u>			
Sales tax holiday	(\$474,247)	(\$583,315)	\$0
<u>Loss to Conservation Fund</u>			
Sales tax holiday	(\$59,281)	(\$72,914)	\$0
<u>Loss to Parks and Soil Funds</u>			
Sales tax holiday	<u>(\$47,425)</u>	<u>(\$58,332)</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO ALL OTHER STATE FUNDS	<u>(\$580,953)</u>	<u>(\$714,561)</u>	<u>\$0</u>

FISCAL IMPACT - Local Government FY 2004 FY 2005 FY 2006

LOCAL GOVERNMENT

Loss to Cities

Sales tax holiday	\$0 to (\$426,822)	\$0 to (\$524,984)	\$0
-------------------	--------------------	--------------------	-----

Loss to Counties

Sales tax holiday	<u>\$0 to (\$284,548)</u>	<u>\$0 to (\$349,989)</u>	<u>\$0</u>
-------------------	---------------------------	---------------------------	------------

**ESTIMATED NET EFFECT TO
LOCAL GOVERNMENT**

<u>\$0 to</u>	<u>\$0 to</u>	
<u>(\$711,370)</u>	<u>(\$874,973)</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This legislation could affect small businesses that collect sales tax on clothing. Sales tax paperwork will be increased for the month that the "holiday" sales tax days are exempt.

DESCRIPTION

This proposal creates a sales tax holiday for articles of clothing valued at one hundred dollars or less and school supplies valued at fifty dollars or less for three days in August. It also creates a holiday for sales of computers and related equipment valued at two thousand dollars or less. The holiday applies to both state and local sales taxes.

The proposal permits local political subdivisions to opt-out of the sales tax holiday.

The proposal establishes a "Sales Tax Holiday Joint Legislative Committee" to study and review the effects of the holiday and report to the general assembly on or before January 8, 2005.

The proposal has an emergency clause enacting it on July 1, 2003, and a sunset of July 1, 2005.

This proposal requires all lottery and gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning
Missouri Lottery Commission
Missouri Gaming Commission
Missouri Senate Appropriations Committee
Annual Fiscal Report: Fiscal Year 2002
States of Texas, Florida and New York



Mickey Wilson, CPA
Director
March 11, 2003